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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Regulatory Affairs

Teleport Communications Group
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Staten Island, NY 10311-1004
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December 3, 1998

Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

RE: Notification of Written Ex Parte Communication: Access
Charge Reform -- CC Docket No. 96-262

Dear Ms. Salas:

On December 3, 1997, TCG sent the attached letters to
Chairman Kennard regarding the above-referenced proceeding.

An original and two copies of this letter are being
submitted in accordance with Sec. 1.1206(a)(1) of the
Commission's rules.

Sincerely,

J. Manning Lee / (Reed)
J. Manning Lee
Vice-President, Regulatory Affairs

Attachments

022



Regulatory Affairs

Teleport Communications Group
Two Teleport Drive, Suite 300
Staten Island, NY 10311-1004
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December 3, 1997

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: Access Charge Reform, CC Docket No. 96-262

Dear Chairman Kennard:

Attached you will find two letters from Teleport Communications Group, Inc. ("TCG") to Senators John F. Kerry and Christopher Bond, refuting their concerns over the impact of the Commission's recent access charge reforms on small IXCs and small businesses. As TCG states in these letters and as described in TCG's Petition for Reconsideration (CC Dkt. No. 96-262), these constituencies will not be adversely affected by access charge reforms. In fact, small IXCs and small businesses actually can benefit from true access charge reform because such reforms can increase the opportunities for competitive local telecommunications carriers to serve them.

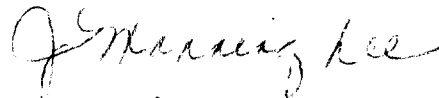
The Commission's initial Access Reform Order made these opportunities possible by permitting the carrier that provided IXCs with transport to keep the charges associated with that service (the TIC). However, the Commission's recent Order on Reconsideration substantially erodes competitive opportunities for carriers to offer transport services, and stymies competitive choices for small IXCs and small business. In fact, the Commission's Reconsideration Order allows ILECs to collect transport revenues from IXCs *even in cases where the IXC is using competing transport services of another carrier*. Consequently, one of the most pro-competitive, market-based checks on ILEC pricing policies -- competitive opportunities for providing transport services -- is diminished.

The substantial removal of the TIC exemption guarantees that the ILECs will receive billions of dollars in TIC revenues, free from competitive pressure. It is difficult to reconcile the Commission's pro-competitive aims with a decision which grants a revenue stream, shielded from competition, to the ILECs. A fully competitive environment for tandem transport service is necessary to allow competitive local telecommunications carriers an

Chairman William E. Kennard
December 3, 1997

opportunity to earn a fair return on their investment. This in turn helps the competitive carriers to pay for the network expansion that is needed to serve local exchange customers and give them the benefits of a competitive market, namely the ability to choose from a pool of competitors what provider they deem best. The initial TIC exemption was a part of that pro-competitive plan. Unfortunately, removal of the TIC exemption is a far cry from it.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Manning Lee".

J. Manning Lee
Vice-President, Regulatory Affairs

Attachments

cc: Commissioner Michael Powell
Commissioner Gloria Tristani
Commissioner Harold Furchtgott-Roth
Commissioner Susan Ness



Gail Garfield Schwartz
Vice President,
Public Policy and Government Affairs

Teleport Communications Group
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November 26, 1997

The Honorable Christopher Bond
Chairman
Committee on Small Business
United States Senate
Washington, DC 20510-2503

Dear Senator Bond,

On behalf of TCG, the leading independent facilities-based competitive local telecommunications carrier, I wish to comment on your letter to Chairman William Kennard dated November 20, 1997, dealing with certain aspects of the Federal Communications Commission's recent reform of long-distance carrier access charges.

In your letter you express concern about both the small carriers and the small end users. Contrary to what you assert in your letter, the FCC's access charge reform decisions benefit both of these constituencies by increasing the opportunities for competitive local telecommunications carriers to serve them.

You express concern particularly about the impact of the new flat-rate primary interexchange carrier access charge (PICC). It is true that a small IXC has to pay as much PICC per customer line as a large IXC. But if the PICC were a per-minute charge, the small IXC would be at risk of paying *more* if the length of calls were to increase as the price of long distance calls declines (which it is expected to do). The PICC may be charged to IXCs by all LECs providing access services to IXCs. Thus the PICC creates an incentive for competitive local telecommunications carriers like TCG to offer lower-priced service to small IXCs, so as to be chosen by those IXCs to provide switched access.

Furthermore, since a flat-rate PICC reflects the way costs are caused, while a per-minute PICC does not, the FCC decision in this matter was entirely appropriate and necessary to comply with principles of cost recovery based on cost causation.

From the small IXCs perspective, it is also important to bear in mind that the PICC is a method for recovering *costs not recovered by subscriber line charges, which have been increased*. The increase in subscriber line charges (SLCs) actually *reduced* the costs to small IXCs of local exchange access. So on balance, the small IXC is paying *less* for access than it previously paid or might pay under a per-minute regime. Small business customers should be concerned only with whether or not the savings are being passed to them by the small IXCs.

With respect to small business subscribers, the PICC is also a plus, not a minus. It is true as you state that a LEC can collect the PICC from a subscriber who has not presubscribed to a long distance carrier, but rather makes "dial-around" long distance calls using various IXCs. This too creates an incentive for a competitive access provider; in this case, the incentive is to sell local telecommunications services directly to the subscriber. That would allow the competitive local telecommunications carrier to collect the PICC because the competitor would be originating a call to the IXC of the subscriber's choice. To obtain a small business customer, for example, TCG might market to small businesses packages of telecommunications service which include lower prices for long distance service which the competitive local telecommunications carrier is reselling or offering over its own facilities. In other words, an incentive has been created for the competitor, because the competitor can "discount" the PICC (as well as the other services) below what the incumbent local exchange carrier is charging.

Next, consider how the restructuring of tandem transport also helps small IXCs and -- if they pass along their cost savings -- benefits their customers. TCG began to offer small IXCs lower transport rates for switched traffic than incumbent local access providers offer when we negotiated agreements with certain incumbent local exchange carriers to share the access payments when we provide some or all of the tandem-switched transport. As a result of the FCC Order in Docket 96-292, TCG and other competitive local telecommunications carriers are now beginning to address the entire IXC switched access market.

As competitive access provision gets established, the prices charged interexchange carriers for switched access are bound to fall further. In fact, such competitive supply of access is the *only* assurance that access prices will be reduced to their actual cost, rather than continue to be set by regulators at some arbitrary, uneconomic level. The unitary rate structure which was replaced by the present access charge structure *bore no relationship at all to cost*, but was in fact an arbitrary construct that allowed any interexchange carrier (large or small) using tandem transport to avoid paying the actual costs of such transport.

A competitive company like TCG could not compete against the *artificially low* tandem transport rates established by the unitary rate structure, because TCG's costs of providing such transport reflect the *actual* transport provisioning costs. The incumbents were not similarly harmed by this artificially below-cost rate, because the FCC's policies allowed ILECs to subsidize these below-cost tandem transport services with end office revenues. In addition, the ILECs were able to recover the remainder of their transport costs from the much wider customer base they serve, so the unitary rate did not harm incumbents as much as it harmed competitors.

In fact, the FCC's policies will still permit subsidization of ILEC tandem switching and transport prices, to the disadvantage of both small IXCs and their small business customers. While the the FCC has put in place a definite timetable for the elimination of the artificial pricing distortions, the FCC decided (in its recent Second Reconsideration Order on access) to allow ILECs to charge IXCs

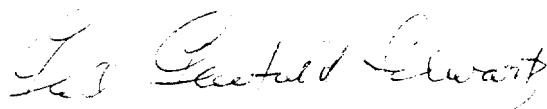
non-cost-based subsidizing rates called "RIC" (Residual Interconnection Charges), which IXC's must pay even if they use competing transport facilities. Making the "RIC" immune from competition delays the advent of full-fledged competition. TCG and others have asked the FCC to return to the more pro-competitive approach of its initial Access Reform Order, in which "RIC" applied only to interexchange minutes using ILEC's transport facilities.

The overarching reason this should be of profound concern to you is that most facilities-based competitive local telecommunications carriers enter a marketplace with the intent of providing local exchange and switched access services over their newly constructed facilities. A fully competitive environment for tandem transport services allows competitive local telecommunications carriers an opportunity to earn a fair return on their investment, and that return helps the competitive local telecommunications carriers to pay for the network expansion that is needed to serve local exchange customers. In this way, the economics of switched access service influence the economics of local telecommunications services generally.

If the Telecommunications Act of 1996 is to give rise to innovation and lower prices of both local exchange services and long distance services, and thereby benefit both small carriers and their small business customers, public policies must encourage facilities-based competition. The access reform and rate restructuring Order did this. Unfortunately, the FCC's reconsideration of portions of the Order has slowed the development of facilities-based local competition and delayed delivery of economic benefits to small carriers and small business subscribers.

I will be glad to discuss this matter with you or your staff.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gail Garfield Schwartz".

Gail Garfield Schwartz



Gail Garfield Schwartz
Vice President,
Public Policy and Government Affairs

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November 26, 1997

The Honorable John F. Kerry
Ranking Minority Member
Committee on Small Business
United States Senate
Washington, DC 20510-6350

Dear Senator Kerry,

On behalf of TCG, the leading independent facilities-based competitive local telecommunications carrier, I wish to comment on your letter to Chairman William Kennard dated November 20, 1997, dealing with certain aspects of the Federal Communications Commission's recent reform of long-distance carrier access charges.

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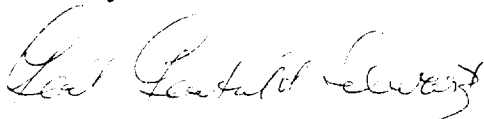
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